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VOL. CLIII NO. 117 Thursday, June 16, 1988

Today

The Arkansas Securities commissioner fined two Little Rock brokerage firms after an investigation of their dealings with two failed Kansas banks. 2

Treasury Secretary James A. Baker urged congressional support for a $70.1 million U.S. contribution to the World Bank. 3

State-chartered banks in New York may be forced to increase their disclosure of small-business lending or lose the real estate powers they won in a 1984 omnibus banking bill. 3

Sen. Bill Bradley, D-N.J., is considering an amendment to the welfare reform bill that would reduce the 50% income tax deduction on interest paid on loans to employee stock ownership plans, or ESOPs. 3

Banking on the Arts: The first New York international festival of the arts, sponsored in part by American Express Co. and the Chase Manhattan Corp., is now under way. 6

W. Lee Hoskins now has more time to ponder his job as president of the Federal Reserve Bank of Cleveland after a frantic initiation during the October stock market crash. 14

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CONSUMER FINANCIAL SERVICES

Credit unions offer the best deals on checking accounts, according to *Consumer Reports* magazine. 2

A nationwide mailing to high school graduates has initiated Fleet/Norstar Financial Group's foray into the competitive market of lending money to students for college. 3

A six-phase strategic savings and investment program at St. Paul Federal Bank for Savings links a series of accounts to customers' financial life cycles, bundling traditional banking products with insurance, brokerage, and financial planning. 8

Officials in Flint, Mich., are asking the city's three largest banks to provide low-interest loans on certain General Motors automobiles to help ease unemployment in the area. 8

Perpetual Savings Bank, Alexandria, Va., is offering its own credit card for the first time — a Visa card with an introductory rate of 10% and no fee for the first six months. 9

Leadership is needed on all levels to overcome the current mediocrity of service in American business, writes Leonard Berry in Marketing Management. 4

Worth Repeating

You just get the feeling it's going to be fun again. We're going to make some money.

Robert A. Meyer of Glasford State Bank in Illinois on the resurgence of Farm Belt banking. [Page 1]

An American Banker Special Report

Farm Belt Resurgence Heartens Local Bankers

By ANDREA BENNETT
Midwest Bureau

WALNUT, Ill. — Despite a shortage of rain darkening the outlook for this year's harvest, bankers report that better times have come to the Farm Belt, which is rebounding from its worst financial crunch in 50 years.

After six years of losses, Citizens First State Bank posted a $200,000 profit in 1987, for a return on assets of 0.76%. Executives at the Walnut, Ill.-based bank expect this year to be even better.

The bank's once suspect loan portfolio is in tip-top shape. "Right now," said James Watson, the bank's president, "we can't identify a loan problem to speak of." Citizens First, 8% of whose loans were nonperforming in 1985, now has no nonperforming loans and only two or three that are past due, "none by more than a few weeks."

Agricultural lenders, after six years of desperation, now are feeling more upbeat.

Their principal borrowers, the farmers, returned to the fields this spring after receiving $23 billion in government subsidies in 1987. Those subsidies helped push net farm income to $45 billion, a level the U.S. Department of Agriculture projects may be matched this year.

Farmers are also enjoying lower levels of debt, lower interest rates than in previous years, reduced expenses, and increasing land values. Also helping farmers is the falling dollar, the primary reason for an expected 16% surge in agricultural exports for the fiscal year ending Oct. 1.

Robert A. Meyer, executive vice president of $13 million-asset Glasford State Bank, Glasford, Ill., shares the optimism of farm bankers. "You just get the feeling it's going to be fun again. We're going to make some money," he says.

This story is the first of an occasional series on the revival of the midwestern economy and its effect on financial institutions.

Because of the drought, the fun may not come this year. But experts say barring a total crop failure, the drought conditions should not cause too much trouble. "I don't think it is necessarily fair to say that one year of dry weather will tip us back to the farm financial crunch," said Mark Drabenstott, an economist at the Federal Reserve Bank of Kansas City.

In addition, experts caution that the recovery will be slow, and that not all farmers will share in it. Moreover, the strength of the recovery rests firmly on government support programs, which Duff & Phelps Inc., a Chicago-based rating agency, estimates will dip to about $20 billion in 1988 from $23.1 billion in 1987.

Despite the cautions, there is no doubt farm bankers have benefited from the recovery. In 1987, according to the Federal Deposit Insurance

Farm Belt: Page 10

Hostile Suitor Increases Bid For Irving

Bank of New York Offers $75 a Share in Meeting

By GORDON MATTHEWS

NEW YORK — The Bank of New York Co. on Wednesday increased its offer for Irving Bank Corp. to about $75 a share from about $68. But unlike previous offers in the long and hostile takeover battle, the latest bid was unveiled during a face-to-face meeting between the two Wall Street banking rivals.

Bank of New York said after the 45-minute meeting, held at the urging of a state judge, that it will continue to offer $15 in cash for all Irving shares. But it will now add 1.675 shares of its own stock, an increase from 1.575 shares in its old bid, and also offer both a special dividend and warrants.

A special dividend of $2.50 per Irving share will be paid just before completion of the offer, Bank of New York said. At the same time, warrants — or shareholder participation rights — will be issued with a value of up to $2.50 per share calculated on the after-tax gain from the sale of Irving's headquarters building at One Wall Street.

Bank of New York Chairman J. Carter Bacot urged Irving to dismantle its takeover defenses and accept the bid "on a friendly basis." Irving's only comment was to announce that its board of directors will consider the new proposal at a meeting on Tuesday.

There was no immediate comment from Banca Commerciale Italiana, the major Milan bank that has acted as white knight in Irving's bitter fight against a takeover by Bank of New

Bank of New York: Page 15

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American Banker /BANK PERFORMANCE

1987 Performance of Top U.S. Banking Companies

Revised rankings for money center banks

Return on Average Assets

Rank 1987*	Rank 1987	Rank 1986		ROA 1987*	ROA 1987	ROA 1986	ROA 1985
1r	2	1	J.P. Morgan & Co., Inc.	1.10	0.10	1.19	1.06
2r	4	3	Bankers Trust New York Corp.	1.09	0.00	0.79	0.79
3r	3	4	Bank of Boston Corp.	0.86r	0.06r	0.78	0.73
4	9	5	First Chicago Corp.	0.69	-1.31	0.71	0.43
5	11	12	Continental Illinois Corp.	0.59‡	-1.90	0.35	0.47
6	6	8	Irving Bank Corp.	0.51†	-0.80	0.60	0.55
7	5	9	Citicorp	0.45	-0.57	0.57	0.62
8	7	7	Chase Manhattan Corp.	0.42	-0.91	0.65	0.65
9	1	2	Republic New York Corp.	0.39	0.16	0.85	0.93
10	10	10	Manufacturers Hanover Corp.	0.30	-1.49	0.54	0.54
11	8	6	Chemical Banking Corp.	-0.33	-1.17	0.70	0.70
12	12	11	Mellon Bank Corp.	-1.11‡	-2.59	0.54	0.67
			Mean Values for Group	0.41r	-0.87	0.69	0.68
			Median Values for Group	0.48	-0.86	0.68	0.66

Return on Average Equity

Rank 1987*	Rank 1987	Rank 1986		ROE 1987*	ROE 1987	ROE 1986	ROE 1985
1r	4	2	Bankers Trust New York Corp.	22.48	0.04	16.48	16.62
2r	2	1	J. P. Morgan & Co., Inc.	18.09	1.48	18.94	18.06
3r	3	4	Bank of Boston Corp.	16.42r	0.42	15.51	13.77
4	8	7	First Chicago Corp.	15.85	-34.23	13.40	8.31
5	11	12	Continental Illinois Corp.	14.70‡	-50.15	6.77	11.29
6	6	8	Irving Bank Corp.	13.20†	-22.95	13.24	12.96
7	5	6	Citicorp	10.63	-16.49	13.80	15.16
8	7	9	Chase Manhattan Corp.	9.55	-25.30	13.05	13.36
9	10	10	Manufacturers Hanover Corp.	6.99	-45.87	12.09	12.31
10	1	3	Republic New York Corp.	6.93	1.90	16.01	14.36
11	9	5	Chemical Banking Corp.	-11.36	-35.27	14.15	15.01
12	12	11	Mellon Bank Corp.	-27.62‡	-66.10	10.01	12.21
			Mean Values for Group	7.98r	-24.38	13.62	13.62
			Median Values for Group	11.92	-24.13	13.60	13.57

Data Sources: Unless otherwise noted, all data were provided to the *American Banker* by **Cates Consulting Analysts Inc., New York.** The data were compiled by the *American Banker*. **(*)**— Based on net income for 1987 that was **"adjusted"** by Cates to exclude the after-tax values of securities gains-/losses, nonrecurring items, and the one-time special provisions attributable to Third World debt. Cates calls this "recurring" net income. **(‡)**— Calculated by the company for this survey. **(†)**— Calculated by the *American Banker* from information supplied by the bank. **(r)**— Revised since publication on 6/14/88.

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Correction

Bank of Boston Corp. had the third highest adjusted returns on average assets and equity among money center banks last year; it did not have the best ratios, as reported in the *American Banker's* annual performance survey on June 14 (page 6). Data for the survey were provided by Cates Consulting Analysts, New York, and Bank of Boston submitted corrected data to Cates after publication.

Based on the adjusted ratios, J.P. Morgan & Co. was the top money center in return on assets, with an ROA of 1.10%. Bankers Trust New York Corp. was the top money center bank in adjusted ROE, with a ratio of 22.48%.

Recurring net income is net income minus the after-tax values of securities gains or losses, nonrecurring items, and the one-time special provisions attributable to Third World debt. The table above lists the money center banks in the corrected order.

Fleet/Norstar Pitches Loans to the College Bound

Special to the American Banker

PROVIDENCE, R.I. — Any day now, several hundred thousand high school seniors across the country will receive an unexpected letter from a northeastern banking company they may never have heard of — Fleet/Norstar Financial Group.

Most of these graduating seniors will already have received the letters they awaited anxiously for weeks, saying they have been accepted at a college or university this fall.

"Getting into college is a big step," the letter from Fleet/Norstar reads. "Now, we'd like to help you with the next one — working out the right way to handle the expenses."

The bank holding company's mailing

CONSUMER FINANCIAL SERVICES
AN AMERICAN BANKER WEEKLY FEATURE

Section Begins on Page 8

marks its opening salvo into the national, multibillion-dollar competition among large New York and superregional banking companies to lend money to students for college. Fleet/Norstar company maintains dual headquarters in Albany, N.Y., and Providence.

The firm offers a comprehensive array of financial services for higher education launched under the name Focus — financial options for college and university students.

In addition to Fleet's loans, the services include a prepaid tuition plan, an equity-secured line of credit, student Visa card, and credit from the four major government-guaranteed student loan programs.

Fleet/Norstar has always been a local player in education lending, but its national student loan program will provide a calling card to families in all parts of the country as it seeks to expand outside the Northeast. The company hopes the students will carry the loans along with good memories of

Fleet/Norstar: Page 12 ➡

Consumer Survey Gives Nod to Credit Unions

By JAY ROSENSTEIN
Washington Bureau

WASHINGTON — Credit unions typically offer the best deals on checking accounts, concludes a special section on banking in *Consumer Reports* magazine, which is noted for testing everything from mortgages to microwaves.

"If you can live without the return of your canceled checks, credit unions are a good bet for low-cost checking," the magazine tells consumers, while warning them to scrutinize credit unions, just as they should other institutions, for such factors as minimum-balance requirements and fees.

Among other findings of the *Consumer Reports* survey of 120 banking institutions in 10 metropolitan areas: Consumers can save hundreds of dollars a year by shopping around even for a basic checking account.

In Boston, for example, the magazine found that a consumer with a "moderate-size" checking account might pay $180 a year to maintain that account at State Street Bank & Trust Co., while a similar account at Shawmut Bank might earn the consumer $34 a year.

Consumer Reports is published monthly by Consumers Union, a nonprofit organization, and claims a paid circulation of 3.5 million.

The special report on checking accounts is the first of three installments to help consumers "shop smarter" for banking products. The next two issues will cover recommendations for shopping for savings accounts, examining the safety of deposits, and evaluating loan products.

What the Institution Spends

In the just published July issue, *Consumer Reports* estimated what an institution spends to maintain an account and what it earns from lending the money. It then suggested what might be the reasonable costs assessed consumers for such as "an efficiently run account." For example, it said, a $5 penalty for bouncing a check "should be plenty."

Based on the magazine's overall calculations about reasonable fees, only 36% of the banks and thrifts surveyed offered this kind of good deal to the "average-balance customer," while 84% of the credit unions did. The magazine defined an average balance customer as one with $1,300 on balance and 21 checks written a year.

Bankers contend that credit unions typically can offer better deals because they are nonprofit organizations that pay no federal taxes.

Of the 120 institutions surveyed by *Consumer Reports,* 20 were credit unions.

Cheapest Accounts in Boston

Other findings from the survey:

• The least expensive accounts were found in Boston, where a person with an average daily balance of $1,300 could expect to pay about $38 a year for checking services. The most expensive were in Houston, where the same type of account could cost $120 a year. The "power of competition" kept prices lower, it said, noting that savings banks and commercial banks in Boston

Survey: Page 15 ➡

2 Arkansas Brokers Fined in Failure Of 2 Kansas Banks

By ANDREA BENNETT
Midwest Bureau

CHICAGO — The Arkansas securities commissioner has fined two Little Rock brokerage firms following an investigation into the firms' dealings with two Kansas banks that subsequently failed.

In consent orders made public this week, First Investment Securities Inc., a Little Rock broker-dealer since June 1983, was fined $10,000. U.S. Associates Inc., a registered broker-dealer since October 1986, was fined $15,000.

Six unnamed Little Rock securities firms were also investigated for their dealings with the two Kansas banks. The results of the examinations of those firms were not made public, but the Arkansas securities department said no further action is anticipated.

"There may be things in the best of all perfect worlds you might have wanted done differently, but [there were] no violations of law," said Beverly Bassett, the Arkansas securities commissioner, about the six firms.

The Arkansas commission began an investigation after receiving a letter in October 1987 from the Kansas banking department that questioned whether securities laws had been violated by the eight Little Rock firms in their dealings with the two Kansas banks.

The banks, the Mayfield State Bank of Mayfield and the Murdock State Bank, Murdock, were closed on Sept. 24, 1987. Regulators cited speculative securities trading at the banks, which had joint ownership, for the failures. The banks' joint assets soared from $16 million on June 30, 1987, to $85 million in August the same year.

In announcing the results of the investigation, Ms. Bassett said in a press release that broker-dealers have a duty to determine the suitability of a securities transaction recommended and executed for a customer.

According to the consent order, First

Arkansas: Page 15 ➡

Corporate America Needs to Nurture True Leaders

By LEONARD BERRY

MANAGING, administering, and supervising will not build a service-minded corporate culture. Only genuine leadership at all levels of an organization can overcome the temptations of service mediocrity and inspire people to be the best they can be.

The No. 1 reason service is so mediocre in American business today is the short supply of true leaders. Too many service workers in America are overmanaged and underled. They want to be free to serve and to exercise some judgment in service delivery; instead they are shackled with thick policy manuals that limit their flexibility. They seek feedback and coaching and recognition; instead they receive memos and commands and stares. They want to work in an achievement culture, to be challenged to be better than average, to be better than good; instead they work in a culture that accepts mediocrity as a way of life.

In every industry, there are pockets of inspired leadership and excellent service. But these pockets of excellence are the exception, not the rule. On the basis of 20 years working with service sector companies and a six-year research program on service quality in America, I am prepared to say in print that our service standards are too low, and our willingness to accept mediocrity as a given, as something about which nothing can be done, is too great.

When are we going to wake up and get serious about making our companies work harder and smarter for customers? If we wait much longer to raise our service aspirations and increase our intolerance of shoddy service, foreign companies and countries will dominate virtually every industry that we in America once dominated. If we wait much longer we will lose control of our economic destiny.

We must start by understanding the imperative of leadership. In business firms and in business schools, we must do a better job teaching and nurturing leadership skills. But first we must understand what leadership means and realize that good managers are not necessarily good leaders.

Berry Says:

Our service standards are too low, and our willingness to accept mediocrity as a given, as something about which nothing can be done, is too great.

Characteristics of Leadership

I have had the opportunity to work with some outstanding leaders over the years, both on campus and in the corporate community. My views on leadership have also been influenced by Warren Bennis and Burt Nanus, authors of "Leadership: The Strategies for Taking Charge," and by banker Nick Baker and researcher Evaldo Palmores, who are training school administrators to be better leaders. From these experiences I have derived the following list of a true leader's characterisics:

- Vision: Leaders have a vision of the future, a mental picture of what it is they wish their organization, or organizational unit, to be. Leaders always have an agenda. They see entire puzzles, not just puzzle pieces; they see the future, not just the present.
- Persistence: Leaders not only have an agenda, they are determined to carry it through. Leaders are role models of consistency. They have an agenda for the future and are rarely distracted from it. Some observers assume that it was Lee Iaccoca's charisma that saved Chrysler from extinction. I believe the key factor was Mr. Iaccoca's stubbornness; he simply would not be denied. Leaders like Lee Iaccoca find a way to do what they set out to do.
- High standards: Leaders are obsessed with their organization doing things right, not just doing the right things. They care deeply about excellence and are forever on the lookout for ways to improve the conduct of the business. Leaders are executors, not just strategists. They are attentive to the nuances and details of the operation, recognizing opportunities in small actions that competitors might consider trivial. Leaders believe that how an organization handles "the little things" makes a big statement about the organization to its publics. Leaders "major in minors."
- Direct communication: Leaders are relentless communicators. They coach. They praise. They cajole. They correct. They sermonize. They emphasize the richest communications medium, which is face-to-face communications. They communicate with their eyes and expressions and words and the example they set. They rarely write memos, preferring to see and hear from their audience. Leaders find the time to be visible, to listen and not just talk. They recognize they cannot really lead if they don't know the people to be led.
- Team-building: Leaders thrive on the building of teams. They are expert at bringing people together, breaking down barriers, opening up channels of communications, rallying the troops to the cause. They think in terms of "we" not "I." They give authority commensurate with responsibility and find ways to turn the spotlight on others when they come through. Leaders challenge the team to achieve, use the influence of their office and the powers of their persuasiveness to remove obstacles from the team's way, and use frequent meetings of the team to spark peer pressure, the strongest motivator of all.
- Self-confidence. Leaders are comfortable with themselves. They believe in their ability; they are confident in the value they add to their organization. As such, they have a capacity for listening to contrary opinions and unpleasant news that many in management positions lack. Leaders have a good enough self-image that they do not always have to "win" the debate. Accordingly, leaders are more likely to receive candid input from others and to benefit from these ideas and concerns.
- Integrity. Leaders cannot lead effectively unless others are willing to follow. Personal integrity is a principal factor in inspiring followership. The best leaders place a premium on fairness with all parties at all times. They do not wish to be party to devious practices. Their standard is not "what can we get away with" but rather "what is proper." Leaders are tough competitors, but they do not seek success by cheating. To a true leader, winning unfairly means losing.

Questions to Ask

The time for renewed attention to the issue of leadership is at hand. We need to ask hard, uncompromising questions about leadership in our organizations and we need to ask them now. Questions like:

- Do we know what leadership is in this organization?
- Do we look for leadership characteristics when we promote people, putting them in charge of other people?
- Do we reward leadership in this organization or do we punish it?
- Do we teach leadership in this organization — or do we teach something else?

I will be devoting future columns to the issue of what we can do in our organizations to nurture leaders. I invite my readers to write me with ideas, suggestions, stories, and examples, care of: Department of Marketing, College of Business Administration, Texas A&M University, College Station, Tex. 77843-4112.

The leadership challenge is urgent. We are running out of time. ■

Dr. Berry is Foley's/Federated Professor of Retailing and Marketing Studies at Texas A&M University and director of the Center for Retailing Studies. He is a past president of the American Marketing Association.

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FLASHBACKS

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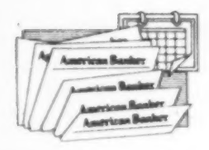

40 Years Ago

- The Senate voted in favor of a two-year military draft for men aged 19 to 26. The draft was designed to provide 250,000 men for the armed services.

20 Years Ago

- The American Bankers Association urged Congress to pass legislation imposing strict controls on the sale and use of all types of firearms. Noting a mounting toll of deaths in the nation attributed to gunshot wounds, the ABA's administrative committee approved a resolution that stated: "The banking community is no idle spectator to this tragic trend of events. During 1967 there were 18 deaths at the scenes of attempted bank holdups."
- Wells Fargo Bank said it would convert to a national charter to acquire "more flexibility in its operations." Bank president Richard P. Cooley noted that national banks were permitted to operate their mortgage banking, equipment leasing, credit card, travel agency, and credit bureau activities through subsidiary corporations. As a state-chartered bank, Wells did not have such options. Wells Fargo was California's largest state bank and the 11th largest bank in the nation.
- The Supreme Court ruled that national banks were not subject to state sales and use taxes, reversing a decision by the Massachusetts Supreme Judicial Court.

10 Years Ago

- The Supreme Court let stand a lower court ruling permitting national banks to continue in the automobile leasing business. The court refused to review an appellate court decision in a suit brought by a group of independent automobile leasers against two western banks in 1973. The appellate court ruled that automobile leasing was a financial activity related to the business of banking and thus consistent with the National Bank Act.

5 Years Ago

- The Supreme Court, while noting that a 1934 law known as the Bank Robbery Act was originally enacted to prosecute gangster-style robberies, ruled that the law applied to crimes in which a person took money from a bank under "false pretenses."
- The Federal Reserve Board voted to require that the nation's 17 largest multinational banks maintain primary capital equal to at least 5% of their total assets — the same capital level required of smaller regional banks since December 1981.
- CBT Corp. and the Bank of New England Corp. announced that they planned to merge. Hartford-based CBT, Connecticut's largest bank, and Boston-based Bank of New England, Massachusetts' third largest bank, each had $5.1 billion in assets.

1 Year Ago

- American Express Travel Related Services Co. unveiled gift checks and said it would spend $4 million promoting the new product during the Christmas season.
- Manufacturers Hanover Corp. said it would boost its loan-loss reserves by $1.7 billion in the second quarter to reflect developments in foreign debt refinancing. The bank said the addition would result in a second-quarter loss of about $1.4 billion. Bankers Trust New York Corp. announced it would make a $700 million special provision to its loan-loss reserve, reflecting its exposure to economically troubled borrowers.
- Citicorp said it would sell its wholly owned South African subsidiary because of growing constraints on the unit's business operations. The bank said it would sell the unit, Citibank NA Ltd., to the First National Bank of Southern Africa Ltd., Johannesburg, for $38.2 million.
- Walter Heller died of a heart attack at the age of 71. He served Lyndon Johnson and John F. Kennedy as chairman of the President's Council of Economic Advisers from 1961 to 1964.

— Domenica Trevor

Fleet/Norstar Makes Pitch to College-Bound Borrowers

Continued from Page 2

Fleet/Norstar when they settle down and need more banking services.

Besides providing an introduction to future customers, student lending also can be a way to diversify income, according to Fleet/Norstar officers.

"We're optimistic this is a business we can make a profit in," J. Terrence Murray, president and chief executive officer, recently told bank analysts meeting in New York.

California Unit May Earn $2 Million

Fleet Education Funding, a new arm of the company created to coordinate its education loan business, may only break even this year. But a California-based firm owned by Fleet/Norstar that processes student loans for a fixed fee should turn a $2 million after-tax profit in 1988, Mr. Murray said.

H. Jay Sarles, executive vice president, projected the banking company could do $150 million in originations this year, which would catapult Fleet/Norstar to a position among the nation's leaders.

Charles Diggs, president of Fleet Education Funding, said Fleet/Norstar originated 23,500 student loans totaling $58 million in 1987 and had a total outstanding portfolio of $340 million.

Fleet/Norstar sells many of the loans it originates but keeps all the servicing, for which it receives a fixed fee for each loan it processes.

Though rich with potential, student lending is not risk-free.

A recent Consumer Bankers Association survey of 126 financial institutions showed the average pretax return on assets for guaranteed student loans to be 0.36% to 0.76%. Most reported a return below the 0.6% expected by shareholders and managers, according to the trade group.

There is continuing talk in Washington of narrowing the interest rate spread that lenders are allowed on federally insured loans; such a measure would cut profitability.

Another proposal would require lenders to assume some of the risk of guaranteed student loans, which are now backed 100% by the federal government.

And because of the growing delinquency rate of student loans, the Education Department continues to push lenders to crack down on defaulters by tightening collection requirements.

This year, about $9 billion in loans will be made under the guaranteed student loan program, and a majority will be issued by the big money center banks in New York. In 12 years, the program has provided $70 billion in loans to 30 million students.

Citicorp Is Leader

Citicorp has been the industry leader for years, followed by Chemical New York Corp., Marine Midland Banks Inc., and two companies outside New York — Florida Federal Savings and Loan Association, St. Petersburg, and Wells Fargo & Co., San Francisco.

Among New England banks, Bank of Boston has been the largest student loan originator but ranks only 34th among all big lenders, according to the latest Education Department statistics.

Fleet/Norstar officials have sound reasons for entering the national student loan market at this time. While student enrollments have stayed constant at 12 million, they explain, the cost of a college education has escalated — becoming more unmanageable for many families.

At the same time, the Reagan administration has shifted its policy away from grants to loans for low-income students, leaving more students with a need to borrow more money.

"That indicated to us that the private sector must step in," said Mr. Diggs of Fleet Education Funding. "It also created an opportunity for us to develop another line of business."

For banks operating in an increasingly competitive market, student loans are an attractive business, because they are insured by the federal government, earn a floating rate of return, and expand the retail customer base.

But an equally important reason for Fleet/Norstar's entrance into the national student loan market was the potential to build loan volume for its profitable servicing company, Academic Financial Services Association, which Fleet Financial Group bought in late 1986.

"When Fleet bought AFSA, they saw the servicing was a good, profitable business — and one way to increase that servicing portfolio was to build loan volume," said Livia Asher, a bank analyst for Fox-Pitt Kelton Inc., New York.

Academic Financial Services Association, based in Long Beach, Calif., now services a $4 billion portfolio representing about 1.8 million loans from about 60 financial institutions and 800 colleges and universities, said Richard Kipper, president.

Fleet/Norstar originates only 8% to 10% of the loans that Academic Financial handles. The Student Loan Marketing Association, or Sallie Mae, the national secondary market, is its biggest client. Sallie Mae provides about 25% of its loans and has a servicing contract with Academic Financial through 1989.

Mr. Kipper said that if the federal government cuts back the profit spread allowed to private lenders on guaranteed student loans, servicing companies may be the beneficiaries.

"As banks get a lower yield, they will look internally at their servicing cost and may find they can get a better price through us," said Mr. Kipper.

Originators and Holders Of Student Loans

Top Student Loan Originators	Year Ended 9/30/85 ($ Mil.)
Citibank, New York	$357
Florida Federal Savings and Loan	153
Wells Fargo Bank, California	129
Chemical Bank, New York	112
Marine Midland Bank, New York	107
Chase Manhattan Bank, New York	92
Manufacturers Hanover Trust Co., New York	88
Bank of America, California	85
Union Trust Company of Maryland*	73
First Interstate Bank of Arizona	72

Top Student Loan Holders	On 9/30/86 ($ Mil.)
Sallie Mae	$7,300
Citibank, New York	1,600
Chase Manhattan Bank, New York	807
Florida Federal Savings and Loan	589
California Student Loan Financial Corp.	564
Chemical Bank, New York	554
Marine Midland Bank, New York	445
Manufacturers Hanover Trust Co., New York	385
Virginia Education Loan Authority	379
Pittsburgh National Bank	311

*Changed to Signet Bank/Maryland in 1987

Source: Department of Education

American Financial Service Association's major competitor is First-Wachovia Student Financial Services, a division of North Carolina-based First Wachovia Corp.

First Wachovia's servicing portfolio is $2 billion and processes 2 million loans from 900 colleges, universities, and financial institutions from 46 states.

Though a leading servicer, First Wachovia is not a major originator of education loans. Other major lenders, such as Citibank, Chase Manhattan, and BankAmerica, do their own servicing.

Fleet/Norstar plans to drive up loan volume to build its servicing portfolio through the Focus program.

"Rather than waiting for students to walk through the door, we go out seeking business," said Mr. Diggs, 41, a marketing specialist with 10 years at Fleet.

Fleet Education Funding kicked off a direct mail campaign earlier this spring to local, regional, and national customers, high school seniors, and college freshmen. In addition, some colleges and universities have joined Fleet/Norstar in this effort and are making separate mailings to inform students of the company's offerings.

One full-time lending officer responsible for student loans has been placed in each of Fleet/Norstar's seven banking centers. There are four centers in New York and one each in Connecticut, Maine, and Rhode Island.

"No other financial institution has put together so many education funding options from a single source for families of all income levels," Mr. Diggs said.

The key component is a Universal Education Loan, a privately guaranteed loan that lets families borrow up to $15,000 a year to a maximum of $60,000 over four years.

Mr. Diggs expects Fleet/Norstar's student loan portfolio will be split, with 75% of federally guaranteed loans and 25% privately guaranteed loans.

That could change, however, if the Education Department significantly changes the federally insured loan program to reduce the huge number of loan defaults.

The Education Department estimated student loan defaults will cost the U.S. Treasury $1.6 billion this year, up 20% from last year. The defaults represent the third biggest item in the Department of Education budget. The cost is projected to grow to $2 billion by 1990.

To curb defaults, new rules were imposed earlier this year to tighten due-diligence collection procedures that lenders must follow before making a default claim, causing rejection of up to $400 million in lenders' claims. The department felt lenders were not trying hard enough to collect loans.

The new government rules sparked tension among educators and lenders, many of whom threatened to back out of the program.

Lobbying Reaps Eased Policy

In March, Fleet/Norstar and other lenders lobbied in Washington against the new rules. They won a more flexible policy, in effect through last May 1. The relaxed policy made it easier for lenders to handle delinquent loans, without the threat of losing government guarantees.

The Department of Education is feeling continued pressure from education leaders in Congress to enact even more rigorous rules and regulations this fall.

In addition, the Education Department's proposed budget calls for cutting the federal guarantee from 100% of the loan to 90%. Congress will decide on the issue by this fall.

Last year, the government cut the margin that banks could tack on to Treasury-bill yields to determine the interest rates on student loans. The spread was cut from 3.5% to 3.25%.

Lenders say the government is considering another 25-basis-point cut in the spread. If that cut becomes a reality, 56% of the 123 largest student lenders say they will slash their programs or drop out of the guaranteed loan program, according to a survey by the Consumer Bankers Association.

"If it is cut further, you will see more and more institutions drop out of the program," said Mr. Diggs, "We are committed to student lending. But significant changes in the rules could cause us to move away from guaranteed student lending and toward more privately insured loans." ■

The Monitor: Issues and Trends

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targeted markets."

Mr. Rinella insists that Lifetime is not just the latest financial services marketing fad.

"This really represents a long-term training program or development program for our employees," he said. As such, it is another step in changing the industry from order-taking to a sales culture. The Chicago thrift executive said that St. Paul Federal has for some time embraced a sales culture, complete with sales incentives and commissions. And the thrift's sales force, according to Mr. Rinella, is now ready for the next step.

"The next step now is bringing them into the financial planning type of role, because that's what our customers really need. They're looking for help." He added: "This program is meant to educate and transform our employees so that they can become financial planners."

The Lifetime program grew out of research that St. Paul began in 1985. The thrift found that its average customer has relatively simple financial goals — establishing credit, buying a home, sending the children to college, and maximizing the retirement nest egg. It also found that this average customer at times is confused and even intimidated when dealing with the array of financial products now available at banks and thrifts.

In addition to consumer confusion, deregulation also wrought a whole new competitive environment for St. Paul Federal, which used to be a traditional, mortgage-making savings and loan association. The institution's expanded product line, in addition to checking, savings, and credit vehicles, now includes insurance and investment services. The thrift owns its own insurance agency and brokerage.

According to Mr. Rinella, the Lifetime program is the result of St. Paul Federal's desire to tie together its diverse product line.

"But we wanted to do more than just develop an asset management account or a CitiOne-type account," he said. "We wanted to develop a package and target it to major groups of our customer base." Thus, St. Paul Federal spent two years on internal development of what has become the six Lifetime accounts.

Mr. Rinella has great expectations for the program. He believes that, in the future, Lifetime account holders will represent a solid core of deposits and customer relationships.

"The program is a means to support our positioning in the marketing place," he said. And it "is a key to developing the primary financial relationships with customers." ■